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Audits Division

RECREATION AND PARK COMMISSION:

Concession Review of San Francisco Forty Niners

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RECREATION AND PARK COMMISSION:

Concession Review of
San Francisco Forty Niners

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Audit Number 00040
April 1, 2002

Edward Harrington
Controller

April 1, 2002

Audit Number 00040

Recreation and Park Commission
City and County of San Francisco
McLaren Lodge, Golden Gate Park
San Francisco, California 94117

President and Members:

The Controller's Audits Division presents the results of its review of the San Francisco Forty Niners (Forty Niners) payments to the Recreation and Park Commission (commission) for the use of 3Com Park for the Forty Niners' football games.

Reporting Period: 1998 through 2000 Football Seasons**Rent Paid:** \$14,035,046

Results: The Forty Niners did not submit required audit reports to assure the Recreation and Park Department (Recreation and Park) that the Forty Niners correctly paid the rent due to Recreation and Park. As a result, we relied upon a special review of stadium revenues conducted by the Forty Niners' accounting firm. We found that the Forty Niners correctly paid their rent except for owing additional rent of \$2,387 for 500 complimentary tickets they issued in excess of the limits set by their lease. On January 10, 2002, the Forty Niners paid this additional rent to Recreation and Park.

The response of the Forty Niners is attached to this report. The Controller's Audits Division will be working with the department to follow up on the status of the recommendations made in the report.

Respectfully submitted,

Noriaki Hirasuna
Director

audit of the Forty Niners, we determined if the specific procedures performed by the accounting firm were the agreed-upon procedures mutually established by the accounting firm, the Forty Niners, and the Controller's Audits Division. As part of our review, we determined if the accounting firm identified any exceptions in the report and assessed if these exceptions warranted additional testwork. We also verified whether the Forty Niners' revenues reported to Recreation and Park agreed with the revenues reported by the accounting firm. Finally, we determined if the Forty Niners paid the correct rent based on the gross revenues reported by the accounting firm.

INTRODUCTION

BACKGROUND

The Recreation and Park Commission (commission) of the City and County of San Francisco (City) has a lease with the San Francisco Forty Niners (Forty Niners) to use 3Com Park for the Forty Niners' football games. The lease was amended to extend the term to May 31, 2008. The lease requires the Forty Niners to report and pay rent to the Recreation and Park Department (Recreation and Park) on the stadium revenues that include admission fees, luxury suite rentals, parking lot operations, and food and beverage concessions.

The lease also requires the Forty Niners to have a certified public accounting firm conduct an annual audit of the Forty Niners' stadium revenues. However, the Forty Niners did not submit required audit reports for the 1998 through the 2000 football seasons. These reports allow Recreation and Park to obtain assurance that the Forty Niners correctly paid all rent due to Recreation and Park. To assist Recreation and Park in determining whether the Forty Niners correctly paid their rent, the Forty Niners and the Controller's Audits Division agreed that the Forty Niners' accounting firm would perform a special review of the Forty Niners' stadium revenues. On September 5, 2001, the accounting firm issued a report on the Forty Niners' stadium revenues applying certain agreed-upon procedures to identify whether the Forty Niners correctly reported their gross revenues to Recreation and Park for the 1998 through the 2000 football seasons.

SCOPE AND METHODOLOGY

The purpose of this review was to assure that the Forty Niners correctly reported their revenues and correctly paid their rent to Recreation and Park. To do this, we determined if Recreation and Park could rely on the results that the accounting firm reported for revenues that the Forty Niners earned for the 1998 through the 2000 football seasons. To conduct this type of review, we normally review the accounting firm's working papers to obtain assurance that the review performed by the accounting firm was adequate. However, because the accounting firm's policy is not to allow external parties to review its working papers, we were unable to perform this task. To assess whether we should conduct a separate

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RESULTS

THE FORTY NINERS CORRECTLY PAID MOST OF THEIR RENT

In our opinion, based on inquiries we made of the Forty Niners' accounting firm, Recreation and Park can rely on the results that the firm reported. We also found that the revenues reported by the accounting firm agreed with the revenues reported by the Forty Niners to Recreation and Park, except that the accounting firm did not include the revenues for the playoff game in the 1998 season. Further, we determined that the Forty Niners correctly paid almost all of their rent to Recreation and Park for the 1998 through 2000 football seasons. The table below shows the rent that the Forty Niners paid to the Recreation and Park for the audit period.

TABLE

**Rent Paid
1998 Through 2000 Football Seasons**

	1998	1999	2000	Total
Admission Fees	\$3,669,176	\$3,229,423	\$3,205,486	\$10,104,085
Luxury Suites	697,335	703,125	514,450	1,914,910
Parking (Main Lot)	643,602	597,165	604,943	1,845,710
Parking ("L" Lot)	17,600	16,000	16,000	49,600
Concession	28,875	0 *	91,866	120,741
Total	\$5,056,588	\$4,545,713	\$4,432,745	\$14,035,046

* The Forty Niners did not owe any rent for concession revenues in the 1999 football season because revenues did not exceed the minimum amount of revenues.

For the 1998 season, the accounting firm did not include in its report the admission tickets revenue of \$4,262,000 for the playoff game on January 3, 1999. Nonetheless, the Forty Niners properly paid Recreation and Park the related rent for the playoff game. The accounting firm reported admission ticket revenue totaling \$32,430,000 for the 1998 season, but the correct amount was \$4,262,000 more, or \$36,692,000. According to the accounting firm's assurance manager, it did not include the playoff game revenue because the National Football League, not the Forty Niners, earns the revenue from playoff games. Because the lease with the commission requires the Forty Niners to pay rent on all

admission ticket revenues, including playoff games, the accounting firm should include playoff game revenues in its audit report.

For the 2000 football season, the Forty Niners owed additional rent of \$2,387 to Recreation and Park for issuing more complimentary tickets than allowed under their lease with the commission. According to the accounting firm's report, the Forty Niners issued a total of 1,377 complimentary tickets in excess of the limits set under their lease for the two pre-season games in the 2000 football season. However, after further review by the Forty Niners, the Forty Niners determined it issued 1,440 complimentary tickets, not 1,377. Although the Forty Niners paid the related rent on 940 of the excess complimentary tickets, the Forty Niners owed Recreation and Park the rent on the remaining 500 complimentary tickets it issued. We computed the rent on the 500 excess complimentary tickets to be \$2,387. On January 10, 2002, the Forty Niners paid Recreation and Park this additional rent. The Forty Niners also paid \$1,125 in admission tax on these 500 tickets to the City Tax Collector. However, the admission tax is not applicable for complimentary tickets because the Forty Niners did not earn revenue on these tickets.

THE FORTY NINERS DID NOT COMPLY WITH SOME LEASE PROVISIONS

The Forty Niners did not submit an annual audit report by a certified public accountant covering all of the Forty Niners revenues from operations under their lease for the 1998 through 2000 football seasons. The lease requires the Forty Niners to submit an audit report within 180 days of the end of the season to Recreation and Park. The season ends after the last game is played, which may include playoff games.

In addition, the Forty Niners did not submit some revenue statements to Recreation and Park. The lease requires the Forty Niners to submit revenue statements to Recreation and Park for each type of revenue. According to Recreation and Park staff, the Forty Niners did not submit parking revenue statements and luxury suite revenue statements for each of the football seasons from 1998 through 2000. In addition, the Forty Niners did not submit the concession revenue statement for the 2000 football season to Recreation and Park. According to the Forty Niners, they submitted the revenue statements to the City Treasurer's Office when the Forty Niners started paying their rent through wire transfers. Because the revenue statements serve as the basis for

calculating the rent due, Recreation and Park needs to receive the statements to ensure that the Forty Niners paid the correct amount of rent.

RECOMMENDATIONS

To ensure that Recreation and Park receives all the rent it is due and that the Forty Niners comply with the provisions of their lease, Recreation and Park should take the following actions:

- Advise the Forty Niners that they may request a refund from the City Tax Collector for the admission taxes the Forty Niners erroneously paid to the City Tax Collector for complimentary tickets.
- Advise the Forty Niners to require their accounting firm to include in its audit report the revenues from any playoff games.
- Require the Forty Niners to submit an annual audit report within 180 days of the end of each season. We also recommend that Recreation and Park establish procedures to ensure that it receives the audit reports when due.
- Require the Forty Niners to submit all revenue statements to Recreation and Park when due. We also recommend that Recreation and Park establish procedures to ensure that it receives the required revenue statements.

We conducted this review according to generally accepted government auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Staff: Ben Carlick, Audit Manager
Leon Valle, Jr.

SAN FRANCISCO FOURTY NINERS RESPONSE TO THE AUDIT:

SAN FRANCISCO 49ERS

26 March, 2002



SUPER BOWL CHAMPIONS
XVI, XIX, XXIII, XXIV, XXIX

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Chief Operating Officer

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Ben Carlick, Audit Manager
City and County of San Francisco
Office of the Controller, Audits Division
1 Dr. Carlton B. Goodlett Place, Room 388
San Francisco, CA 94102-4694

RE: Audit #00040

Dear Mr. Carlick:

This letter is in response to your request for a formal response to the above referenced audit, reporting on the San Francisco 49ers use of 3Com Park for the 1998 to 2000 Football seasons.

Reporting

The San Francisco Forty Niners stadium lease with the City of San Francisco requires the submission of audited financial statements. Prior to 1998, this stipulation was not enforced by the City of San Francisco. Instead of relying on audited financial statements, the Office of the Controller personally audited the selected applicable revenues of the San Francisco Forty Niners to ensure that all rents due to the city were paid timely and accurately.

As a privately held company, the San Francisco 49ers do not wish to make their financial statements public, and therefore did not submit financial statements for the 1998-2000 football season when the Office of the Controller made the initial request. Instead, the City and San Francisco 49ers agreed (at 49er expense) to hire the accounting firm of Deloitte & Touche to apply mutually agreed upon procedures to the selected revenues for the 1998-2000 seasons.

Amounts due City and 49er Refund Request

This report showed that the San Francisco 49ers paid in excess of \$14 million dollars in rents to the City of San Francisco in the three year period covered by the report. The report also determined that the San Francisco 49ers exceeded the limit of complimentary tickets allowed by the lease during the two preseason games of the 2000 season. The San Francisco 49ers timely paid stadium rent on 940 tickets issued in excess of the lease allowance, but erred in not timely paying rent (total of \$2,387.50) on a second preseason game in which 500 complimentary tickets in excess of those allowed in the lease were issued. As noted in the report, the San Francisco 49ers subsequently paid this rent on January 10, 2002.

1. Introduction

The purpose of this document is to provide a comprehensive overview of the project's objectives, scope, and deliverables. The project aims to develop a new software application that will streamline the workflow of the department and improve efficiency. The scope of the project includes the design, development, testing, and deployment of the application. The deliverables of the project are a functional software application, user manuals, and training materials.

The project is organized into several phases, each with its own set of tasks and milestones. The phases are: Requirements Gathering, Analysis, Design, Development, Testing, and Deployment. Each phase has a specific goal and a set of tasks that need to be completed. The milestones are the key points in the project timeline where a significant milestone is reached.

The project is managed using a project management tool that allows for the tracking of tasks, progress, and resources. The tool provides a clear view of the project's status and helps to ensure that the project is completed on time and within budget.

The project team consists of several members, each with their own area of responsibility. The team is led by the Project Manager, who is responsible for the overall management of the project. The team members are: [Name], [Name], [Name], [Name], and [Name]. Each team member has a specific role to play in the project, and their contributions are essential to the success of the project.

The project is subject to regular communication and reporting. The Project Manager provides weekly status reports to the steering committee, which is responsible for the overall oversight of the project. The steering committee meets on a regular basis to discuss the project's progress and make any necessary decisions.

The project is expected to be completed by the end of the year. The final deliverables will be a functional software application that will be used by the department. The user manuals and training materials will also be provided to the department. The project is expected to result in improved efficiency and streamlined workflow for the department.

S A N F R A N C I S C O 4 9 E R S

In addition to rent on stadium tickets sold, the San Francisco 49ers also pay admission taxes on tickets purchased by the public. Complimentary tickets are, however, exempt from these taxes. In error, the San Francisco 49ers made an unnecessary payment of \$2,115.00 for admission taxes on 940 excess complimentary tickets for the 2000 season and, on January 10 2002, paid \$1,125.00 in admission taxes for the remaining 500 excess complimentary tickets. As a result, the San Francisco 49ers have effectively paid rent and admission taxes on all 1,440 excess complimentary tickets issued during the 2000 season.

As noted in the report, therefore, the San Francisco 49ers have paid all of the rent due to the City for the audited periods and is due a refund of \$3,240.00 related to the overpayment of admission taxes on 1,440 complimentary tickets. This refund will be pursued with the City Tax Collector.

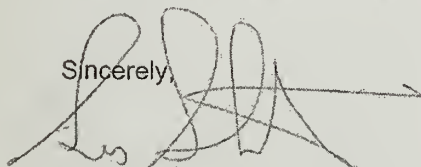
Review of Recommendations

We have carefully reviewed the recommendations made by the report and are hereby responding to each of the proposals made.

The San Francisco 49ers will begin submitting an audited report of all revenues related to rents. This audited report will be delivered within 180 days of the end of each football season. The first report will cover the 2001 football season and be delivered prior to July 13, 2002. The San Francisco 49ers intent to comply with this recommendation is borne out by the fact that we hired the accounting firm of Deloitte & Touche in July 2001 (and prior to the issuance of the City's audit report) to perform the required annual audit.

As noted in the report, the San Francisco 49ers began delivering revenue statements to the City Treasurer's office when it began to pay its' rent via wire transfer to the City Treasurers' office (instead of by check to the Recreation and Park Commission). As the change of payment method was made at the request of the City, and the lease does not require payments to be made via wire transfer, the San Francisco 49ers will revert to remitting all rent payments via bank check, with the appropriate revenue statements attached to the Recreation and Park Commission. This will allow the Recreation and Park Commission to properly and timely match the rents received with the appropriate revenue calculation. This will also allow the Recreation and Park Commission to promptly notify the San Francisco 49ers should they make an error that results in an overpayment, underpayment or miscalculation of monies due to the Recreation and Park Commission.

Sincerely,



Les Schmidt
Chief Operating Officer

cc: Mayor
Board of Supervisors
Civil Grand Jury
Public Library



